Jerry E. Abramson
Mayor

26 Member
Metro Council

The Office of Internal
Audit provides independent,
objective assurance and
consulting services
that adds value to and
improves Louisville
Metro Government.

Office of Internal Audit

Audit Plan

October 2004

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KELLY DOWNARD
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LOUISVILLE, KENTUCKY

OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA
CHIEF AUDIT EXECUTIVE

Transmittal Letter

October 22, 2004

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Subject: Updated Audit Plan

Introduction

Enclosed is the audit plan for the Office of Internal Audit. This outlines the activities where we will focus our resources. Professional internal audit standards, as well as our charter (ordinance), require the preparation and presentation of this type of plan to the Audit Committee. This plan is updated annually after the passage of the operating budget.

Methodology

This plan was developed using a risk-based methodology that incorporates the COSO framework, which is the model used in the internal audit profession. By using this approach, we focus our resources on helping ensure Louisville Metro Government is achieving its objectives.

In addition to performing the entity wide risk assessment, input was solicited from the Metro Council, Mayor, Cabinet Secretaries, Department Directors, External Auditors, and other Metro officials. This included a web-based survey of all Department Directors.

<u>Major Risks</u>

The major risks impacting Louisville Metro Government, from an internal audit perspective, were then formulated. The risks are as follows:

(1) Operating Environment

- Change (impact, timing, and acceptance).

- Employee morale.

- One of Metro's major inputs is human resources, so there is a greater likelihood that quality of services will be negatively impacted by these issues.

(2) Human Resources

- Recruitment and retention of qualified personnel.

- Pay inequities.

- Paying employees accurately. Decentralization of data entry may require estimates of time worked in order to meet processing deadlines.

- Re-engineering of payroll process.

(3) Information Technology

- Resources.

- Functionalities of systems and engineering processes to maximize benefits.

- Security.

(4) Financial Accountability

- Policy compliance.

- Reliability of financial information.

- Paying vendors timely and accurately.

- Decision-making and analysis functionality of financial system.

(5) Assets

- Safeguarding and accounting for all assets.

Core Services

From the preceding steps, potential audit areas were identified. The next step was aligning the potential audit areas with our core services, which are structured to support the Mayor's Strategic Plan. Our core services are as follows:

- Assurance Services

- Consulting Services

- Information Technology Audit Services

- Integrity Services

The purpose of this step is to ensure that we have the capacity, resources, and capability necessary to undertake these projects.

Final Plan

The last step was preparing the audit plan. To summarize, the plan includes areas that:

- Align with our core services

- Relate to the top risks for Metro Government

- Comprise entity-wide processes and tasks

- Involve former County Agencies

- Have potential for value-added results

The audit plan is presented in the following section of this document.

If you have any questions, or wish to discuss any of these items in further detail, please let me know.

Sincerely,

Michael S. Norman, CIA
Chief Audit Executive

Audit Plan

The audit plan is in order by our core services. Within each core, the specific type of service is presented. Under each type of service, the focus / department is listed. The order of presentation within each core service is not meant to represent prioritization; this is only done for ease of use.

The detailed audit plan begins on the proceeding page and covers the following:

I.   **Assurance Services**
   ✓ Operational
   ✓ Revenue
   ✓ Compliance

II. **Consulting Services**
   ✓ Special Requests
   ✓ Consultation
   ✓ Committees
   ✓ Education / Training

III. **Information Technology Audit Services**
   ✓ Systems Development / Implementation
   ✓ IT Operational
   ✓ IT Technical

IV. **Integrity Services**
   ✓ Special Investigations

Operational

These reviews help ensure that risks are sufficiently mitigated so that departments / programs achieve objectives, and operate efficiently and effectively.

Air Pollution Control District
- Capital Account Fund

Corrections
- Contract Monitoring
- Inmate Account
- Inventory
- Property Room
- Work Aid Allowance

Enterprise
- Cash Management / Depository Bank Accounts
- Foundations & Boards (GASB 39)
- MIDAS / LOJIC Agreements
- "Off Book" Bank Accounts
- Petty Cash
- Utility Payments
- Vendor Analysis

General Services Administration
- Fleet Management
  - Consolidation
  - Fuel Cards
  - Outsourced Services

Health
- Self Insurance Trust Fund

Human Resources
- Benefits Claim Processing

Human Services
- Donations
- Housing Authority Escrow Fund

Metropolitan Development Authority
- Parking Authority of River City
  - Parking Garage Operations

Parks
- Jefferson Memorial Forest
- Follow-up
  - Golf Pro Contracts
- MTM Natatorium
- Outsourced Operations
  - Farnsley-Moreman
  - Locust Grove

Police
- Consolidated Property Room

Youth Center
- Property Room

Zoo
- Business Office Change of Command

Revenue is inherently risky. This risk is intensified in a governmental entity where goods / services do not directly correlate to revenue. These reviews are designed to address the miscellaneous areas that may not be addressed by external auditors.

Air Pollution Control District
- Permits

Corrections
- Federal / State Reimbursements
- Other Revenue
  - Booking Fees
  - Commissary
  - Home Incarceration Program
  - Room & Board
  - Telephones

Enterprise
- License Agreements

Facilities Management
- Courthouse & Judicial Center Reimbursements
- Rental Receipts
- Telephones & Vending Machines

Health
- Environmental Services
- Follow-up Review
  - Billings & Collections
  - MORE Clinic

Inspections, Permits & Licenses
- Permits & Licenses Fees

Metropolitan Development Authority
- Parking Authority of River City
  - Parking Ticket Outsourcing

Parks
- User Fees

Planning & Design Services
- Permits & Review Fees

Police
- False Alarms
- Service Agreements
  - Suburban Cities

Public Works
- Impoundment Lot
- Permits

Solid Waste Management Services
- Miscellaneous Receipts

These reviews help ensure activities are performed in compliance with applicable laws, regulations, and policies.

Enterprise Wide
- Donations
- Health Insurance Portability and Accountability Act (HIPAA)
- Payroll
- Procurement
  - Contracts
  - Vendor Payments

Police
- Narcotics Disposals
- Narcotics Operations
  - PERF Report
- Property Room
  - Cash Evidence Management

II. Consulting Services

Special Requests

These requests address a wide range of issues, and are important to Louisville Metro Government's operations. These are given a high priority, and resources dedicated as needed.

Mayor

Council

Cabinets / Departments

This service is provided to help identify business best practices, and to ensure major risks are identified and mitigated as needed.

Corrections
- Quality Assurance Function

Emergency Medical Services
- Billing & Collection
- Consolidation
- CPR Center
- Inventory / Supplies

Enterprise
- 444 Development Center
  - Workflow & Revenue Processing
- External Agency Grants Monitoring
- Federal Grants
  - Identification
  - Application
  - Administration
- Loan Processing Services
- Lockbox Services
- On-Line Payments
- Service Efforts & Accomplishments
  - Development
  - Validation / Reporting

Facilities Management
- Belle of Louisville
- Louisville Gardens

Finance
- Policy Development and Review
  - Accounts Receivable
  - Investments
  - Payroll
  - Petty Cash
  - Revenue / Cash Management

Human Resources
- Policy Development and Review
  - Fraud / Principles of Conduct

Kentuckiana Works
- Kentuckiana College Access Center

Technology
- Policy Development and Review
  - General Use & Security

In order to maintain independence, participation is limited to ex-officio (non-voting, non-decision making) status.

PeopleSoft Upgrade

MIDAS

This proactive service is intended to help prevent future problems through sharing of expertise and experience.

Cash and Liquid Assets
- Cash Handling Procedures

External Agency Grants Monitoring

Fraud Awareness

Internal Controls

Newsletters of Important Issues / Trends

Privacy & Identity Theft

System Development / Implementation

This proactive service is intended to help ensure systems operate efficiently and effectively once implemented.

Animal Services
- Licenses

HR/Payroll System
- PeopleSoft Upgrade

Corrections
- Inmate Management System

MIDAS

General Services Administration
- Fleet Management
  - Fleetwave

IT Operational

These reviews may include general controls, business continuity planning, disaster recovery, physical security, or software licenses.

Emergency Medical Services

Police

Information Technology

Revenue Commission

MetroSafe

These are highly technical reviews that most likely will require assistance from external partners and contractors. A long-range plan will be developed in early 2005 to address IT risks and critical audit areas. Activities that may be included in the plan included the following.

IT Risk Assessment / Audit Plan
- Active Directory Project
- Database Management System
- Firewalls
- Internet Penetration
- Network Architecture
- Operating System
- Patches & Updates
- Security

Special Investigations

These investigations are performed until sufficient evidence is gathered to refer the matter to the appropriate authority (e.g., Law Enforcement, Human Resources), and assisting as needed after referral.

Employee Misconduct

Fraud
- Investigations
- Proactive Detection / Analysis
  - Computer Assisted Audit Tools
  - Direct Deposit
  - Employee / Vendor Identification
  - Prevention Checkup Exercise
  - Vendor Activity